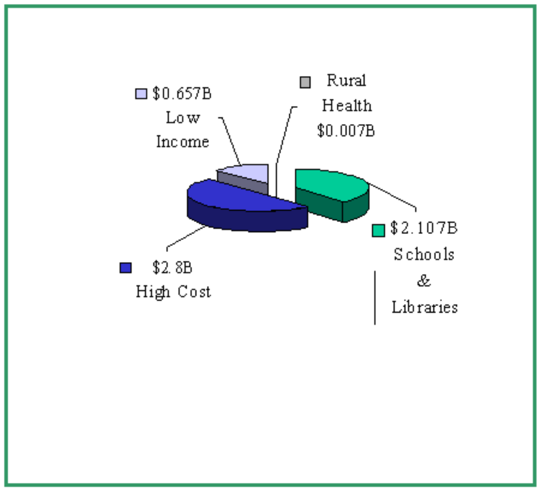
WORLDCOM SM

Federal Universal Service Fund : $5.5 Billion per Year

- High cost fund keeps rural rates affordable
- Low income households receive inexpensive Lifeline service and discounts for initial connection charges
- Schools and libraries receive e-rate discounts for equipment, wiring, and Internet connectivity
- Rural health care providers receive telecom discounts for telemedicine applications



$5.5B Fund Will Continue to Grow

- **Bush administration projects $7.9 billion by 2006**
- **"MAG" plan will increase USF between $500-$800m a year**
  - **Effective 7/1/02**
- **FCC opens proceeding on low income household participation**
- **FCC opens proceeding on expanding implementation of section 254 to include advanced services**
- **Remand of FCC's Ninth R&O creates risk of larger fund**
- **Fund could increase further if more customers in high cost areas acquired multiple lines**

Who pays the $5.5 billion ? Customers!

76%	**16%**	**6%**	**2%**
Customers of Long Distance Carriers	Customers of Incumbent Local Exchange Carriers	Customers of Wireless Carriers	Customers of Competitive Local Exchange Carriers
$4.2B	$0.9B	$0.3B	$0.1B

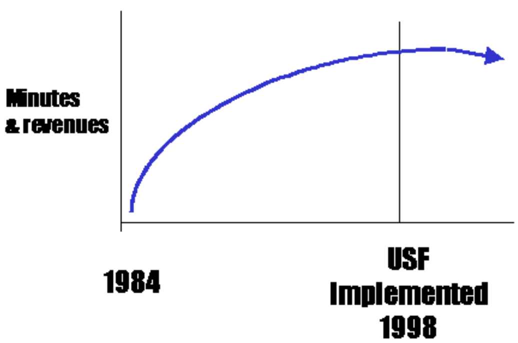
How does the universal service fee appear on monthly customer bills?

- Long distance customers: a percentage charge on revenues, in 8-9.9% range

- ILEC customers: a per line charge, typically in the range of $0.35-$0.45

- Wireless customers: a per line charge, typically in the range of $0.40-$0.53

Fundamental change has occurred in the long distance market



- Long distance voice revenues and interstate switched minutes are in sustained decline – reflected as 2.5% decline in contribution base between 1Q01 and 2Q01
- Glut in long-haul capacity put substantial downward pressure on prices
- Wireless successfully substituting for traditional long distance service
- Instant messaging and e-mail also are substitutes
- Future: Voice on Internet

With the amount to be collected by long distance carriers chasing fewer long distance minutes and revenues . . .

. . . each remaining minute or dollar of revenue must bear a heavier burden.

The result -- *retail surcharges increase.*

Revenue-based system has measurement problems

- Wireless carriers sell blocks of minutes, and cannot distinguish interstate from intrastate revenues
  - Use “default” allocator that understates interstate usage
- Most industry experts agree that carriers will increasingly sell certain “bundles” of interstate and intrastate services, CPE, enhanced services

WorldCom's Proposal

- Eliminate revenue-based assessment
- Replace with a connections and capacity assessment on the interstate telecommunications provider that "owns" the end user customer

WorldCom's proposal: residential

- USAC to assess carriers based on wireline and wireless interstate connections
  - $1 per connection per month
  - Lifeline assessed nothing
- Pagers assessed at $0.25 per month

WorldCom's proposal: business

- USAC assesses on interstate network connections and capacity
  - Single-line business (wireline and wireless) at \$1; pagers at \$0.25
  - Residual multi-line business (wireline and wireless) base charge \$2.50 - \$3.25:

Level	Facility Capacity	USF Contribution Rate
1	Less than 1.544 Mb/s	Base multi-line business USF charge
2	1.544 Mb/s (T-1) up to 45 Mb/s	5 X (base MLB USF charge)
3	45 Mb/s (DS-3) or greater	40 X (base MLB USF charge)

Who pays under WorldCom's plan?

- Carrier who "owns" the customer for the purpose of providing the connection is assessed
  - ILECs based on loops provided to their end users (loops are legally considered interstate, as well as intrastate)
  - Competitors who provision end users from their own loop facilities, via UNE-P or unbundled loop, or using interstate special access
  - Wireless carriers based on the number of "connections" (more easily counted than interstate revenues)

Advantages

- Competitively and technology neutral
- As network evolves from PSTN to Internet, system based on connections is stable and predictable
- No need to assess dot.coms for VoIP revenue
  - Revenue allocation issues – an unploughed field
- Facilitates flat fee recovery

Proposal complies with the Act

- Upon whom should the obligation to contribute to universal service fall?
  - "All interstate telecommunications providers"
- How should contribution be apportioned among interstate telecommunications providers?
  - Not prescribed by the statute; assessment must be equitable and nondiscriminatory
- No conflict with 5th Circuit decision

Recovery of USF Contributions, cont'd

- Lifeline consumers pay zero in USF surcharges
  - Carrier providing connection knows who its lifeline customers are
- Surcharge name
  - Due to billing systems limitations, allow names similar to, but shorter in length than, "Federal Universal Service Charge," e.g., Fed Universal Svc Charge.

Need to move expeditiously

- Every financial quarter, interstate revenues decline
  - AT&T year over year revenues decline in 2Q01 was 5.9%, including residential decline of 19.8%
  - WorldCom business voice revenues declined 6% 2Q01 vs 1Q01 and residential declined 16+%
- Increases in interexchange customer fees are not a helpful foundation for future health of universal service system